

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1744 – SB 2344**

February 24, 2018

**SUMMARY OF BILL:** Requires interest be paid on any life insurance policy or annuity for which the beneficiary resides in this state or for which the insured person resides in this state at the time of death. Changes computing interest payable on a life insurance policy or annuity. Removes the three year limit for payment of interest.

Changes the rate of interest payable from not less than what is currently paid on proceeds left on a deposit to computed interest daily at the greater of the rate of six percent per year or interest credited to proceeds left on a deposit. Establishes that beginning 30 days after the claim is filed, interest is computed daily at the rate of 12 percent.

Requires no payment for interest less than \$5. Establishes that no interest is necessary if a claim is paid within 30 days of death or if the death occurred within 12 months of issued policy.

**ESTIMATED FISCAL IMPACT:**

**Increase State Expenditures – \$25,800/FY22-23  
\$51,500/FY23-24 and Subsequent Years**

**Increase Local Expenditures – \$25,800/FY22-23\*  
\$51,500/FY23-24 and Subsequent Years\***

**Assumptions:**

- Pursuant to Tenn. Code Ann. § 56-7-315, an insurer of a life insurance policy or annuity issued for delivery in this state, with respect to a claim for benefits by reason of death of the insured or annuitant, shall pay interest beginning the 15th day following the day of death of the insured or annuitant, with the interest compounded annually for a period not to exceed three years.
- This legislation would remove the three year limit and require payable interest of a life insurance policy claim beginning the date of death until the date of payment.
- Passage of this legislation would raise the interest rate paid on death claims by the State Insurance Committee's basic term life insurance and basic accidental death and dismemberment insurance (AD&D).

- The state currently averages paid claims of \$6,690,630 per year in basic term life and AD&D. Claims are paid from the active state employee fund, which is built by appropriation and employee premium.
- Based on information provided by the Department of Finance and Administration (F&A), Benefits Administration's basic term life and AD&D vendor reviewed the State of Tennessee's book of business to determine the number of claims filed and paid during the last contract period.
- An actuarial analysis formulated by the vendor assuming the same number of claims, adjusted for inflation and using the increased interest rate of 12 percent as required by this legislation, found an estimated recurring increase in paid claims of \$51,518.
- Premium rates are locked in until January 1, 2023, and cannot be increased without a contract amendment before that time.
- Due to these premium rates being locked in through calendar year 2022, the total increase in state expenditures in FY22-23 is estimated to be 50 percent of the first full-year increase, or \$25,759 (\$51,518 x 50.0%). The recurring increase in state expenditures is estimated to be \$51,518 in FY23-24 and subsequent years.
- Passage of this legislation would require changes in interest calculation and payments for policies that may have been issued in another state.
- Based on information from the Department of Commerce and Insurance (DCI), DCI would have no enforcement authority over these policies; otherwise any impact on department policies and procedures would be not significant.
- The number of local government entities that offer life insurance and AD&D insurance benefits to their employees, as well as any contract terms and associated expenditures, are unknown. However, it is reasonably estimated that the local governments would realize a similar mandatory increase in expenditures to that realized by the state government.

## **IMPACT TO COMMERCE:**

### **Increase Business Expenditures – Exceeds \$103,000**

#### **Assumptions:**

- Companies that issue life insurance policies will experience an increase in expenditures due to an increase in payable interest on some insurance claims.
- Based on information provided by the DCI, premium rates are not anticipated to significantly increase.
- There are an estimated 3,022,800 nonfarm employed individuals in Tennessee.
- It is estimated that 14 percent, or 433,300, of total nonfarm Tennessee employment are individuals employed in state, local and federal jobs and are receiving life insurance policies through their employment.
- Based on this available information, it is reasonably estimated that the proposed legislation will result in a recurring increase in business expenditures equal to at least the

total increase realized by both state and local government combined, or \$103,036 (\$51,518 x 2), beginning with FY18-19.

*\*Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

/vlh